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# Management of Innovation in South Korean companies.

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## **Abstract**

The thesis will be covering the management of innovation in South Korean companies.

Topics that will be covered include:

- Management of Innovation
- Innovation
- South Korea's Corporate culture
- Innovation Process Theory
- Role of Leadership in Innovation
- Successful Innovations in South-Korea, case examples
- Innovation Pipeline

The author of the thesis currently resides in South-Korea working in a SME company that specializes in International Trade and Marketing. Therefore many of the things included have been learned through experience in the real corporate environment and culture.

The fast globalization of the world has led to a situation where companies have to fight for survival on a daily basis. Due to this the ideal company structure has also changed from big organization's that have a lot of capital to do big business to small and medium sized organizations that have the flexibility and ease of communication to react quickly to market needs and changes.

In the middle of all this chaos, Korea is slowly drifting into an economic crises that happened due to the country's reliance upon the big conglomerates. Now that the times have shifted, Korea also needs to follow, but it is not as easy as it seems. The big corporations will stick to their methods until they perish, making Korean economy and the middle-class Korean's the victims.

## **1 Introduction**

### **1.1 Management of Innovation**

In order to observe and measure the management of innovation in Korea, it is vital to understand how big of a role Korean culture plays in the corporative setting.

In addition it is important to establish certain measurement boundaries in order to compare different companies, and how they manage the innovation.

In this case it is best to compare Korean management of innovation culture to that of the west, specifically United States. As we all know, the US has been for a long duration of time the home to the most famous management ideas and specialist therefore it is only natural to use it as a benchmark.

Even before going to the actual topic of Management of Innovation in South Korean companies. It is important to understand the concept of innovation itself and what kind of value does it carry in the current ever changing corporative world

Innovation has always been seen by many as a stroke of genius, something that the very few special ones among us can do, an irrational process to put it simply or stroke of genius. In reality innovation is much different than people make it to be – most of the time innovation is controlled and well executed, as any other corporative functions. It is not a stroke of genius that occurs out of nowhere, rather it is a long unending process of constant repetition of trial and error.

Innovation has often been mistaken to be conflated with strategy. Strategy is coherent and substantiated logic for making choices, while innovation is quite the messy business. To simplify it even more strategy is about achieving set objectives, while as innovation is about discovering something to which there's no set destination until you eventually get there.



Source: AMR – qualitative research.

## 1.2 Innovation

What kind of value does innovation carry in this current world then?

For quite a long time, innovation has been the defining difference between a company's survival and demise. Long time ago we humans evolved from apes in order to survive, in the corporate world a similar statement can be made. In order for companies to survive they need to evolve, if they don't their existence ends – they simply die out.

There are plenty of examples of companies that were too big or not adaptable to evolve and eventually withered out. One would be Kodak, the company that invented digital photography and missed golden opportunities in the very same field eventually going bankrupt due to the stubborn decisions of not switching from traditional film to digital film. (How Kodak Failed – Forbes, Jan 18th, 2016.)

This has been the case in the corporate world for a while now and this is where innovation and especially the management of it comes in to play. In order for companies to evolve – they need to innovate, therefore there needs to be a well-executed system in place that allows for innovation to thrive in the corporate environment – that is the management of innovation.

What the country needs currently is to shore up the financial strength of its families and build up the capabilities of its service industries and small businesses to create well-paying jobs, otherwise the economy will face a threat of declining consumption and shrinking output.

## 2 South Korea's corporate culture

*"A corporate culture can be defined as a set of values, beliefs, goals, norms, and ways of solving problems that members/employees of an organization share (Ferrell, Fraedrich, Ferrell 2008:126)"*

### 2.1 Korean corporate culture

Firstly I would like to illustrate the current corporate culture that exists within Korea, and explain what kind of influence it has on innovation and its management.

Korea is a very hierarchical society, this stems from Confucianism where respecting one's elders and striving for harmony was extremely important. The interesting factor here is that many westerners don't realize the impact that Confucianism has had on the culture, language and through these two factors obviously in the working world as well.

Due to the influence of Confucianism the corporate environment has become stifling to an extent which can be slightly compared to the old corporate environment that United States had in the 70s-80s, as in if you're superior hasn't gone home you can't go home either. Obviously it affects not only the time at which you get off from work, but also other aspects of work; meetings, salary, assignments etc.

As unbelievable as it sounds, this is the sad truth still in the Korean society. The country with the fastest internet and biggest internet penetration in the world, is in reality a really old-fashioned society where the old reap the benefits of the young people's hard work. This is quite a bold statement, but sadly it is true.

The growth formula behind South-Korea's astounding economic growth – a state guided capitalism focused on export-led manufacturing – no longer works for a big majority of Koreans. Although the GDP of Korea has nearly tripled in the past 20 years, but the growth has not affected the ordinary citizens as much, whose real wages grown less



than half that rate. In reality more than 50% of the middle income households are paying out more each month than they earn.

In addition the social distress is increasing, the amount of divorces in South Korea has tripled, not to mention the highest suicide rate of all OECD economies.

(Bloomberg, South Korean Seniors Learn How to Die 'Well' to Curb Suicide.

The salary system in companies like Samsung has been made to encourage people to work for a long time in the company, meaning that the longer they stay the more they will receive over-time in wages and benefits. Unfortunately this kind of system doesn't encourage skilled work-force to perform at their full capabilities, which has led to recent exodus of Korean workers to China, simply because the companies in China hold experts in much higher value compared to Korea, finance wise.

## 2.2 Korean culture, Trompenaars' model

I would like to explain Korean culture more in detail through Trompenaars' model of national culture differences.

Korean culture is very much a particularistic one with a highlight towards personal relationships even in a business setting. Before conducting any business, Korean's tend to prefer getting to know the possible business partner during a dinner where talking about personal life, values and drinking alcohol hold a high meaning.

Communitarianism is at a high level in Korean organizations, where people like to refer to the company as our company and when facing hardship's it is often said by the senior staff that they are doing this for the company. Korean culture is a highly homogenous culture making it communitarian in the sense that people don't want to stick out from the crowd at all – harmony and blending in are considered to be good manners. For example if everybody else is working over-time, then you have to as well, otherwise you separate yourself from the community.

Lastly I would like to mention that Korea is very much an ascription culture, titles are given in most companies by seniority and based on the years worked for the company. It is highly important to show respect and obedience to one's superiors in the Korean corporate setting making the corporate hierarchy suffocating to the point that employee's

don't want to risk offering new ideas, because they might be seen as arrogant or over-reaching.

Compared to the American individualistic, achievement based specific culture where personal life has been strictly divided with the working life, Korea is a complete opposite. This can also be considered to be one of the reasons why Korea has a hard-time in adapting American based management concepts, the cultures are the polar opposites of others after all.

### 2.3 Effects of the Chaebol conglomerates on the economy and innovation

The term Chaebol represents a family-owned Korean big corporation, most notable ones include LG, Samsung, Hyundai, Lotte and POSCO.

These companies were originally the reason why the Korean economy grew at such an incredible rate, of course if there wasn't any government protection or bail out during the IMF crisis, most of them wouldn't exist.

Unfortunately currently the Chaebol companies are the reason why Korean economy is struggling and the innovation culture is not thriving. Similar case could be seen in Japan about 50 years ago, until the family-owned companies went bankrupt or were deemed illegal by the Japanese government.

Chaebol's in Korea can be illustrated as big octopuses that extend their tentacles to many different industries, but since the companies only care about the profits in the main businesses, the side businesses are more than often unsuccessful and unprofitable.

The problem with the aforementioned approach is that, these companies suffocate other medium and small sized companies in the same industry through their actions, not allowing small or medium size companies to become the indisputable expert of one industry, suffocating competition.

As it is evident from the chart below, nearly half of the business entries made by conglomerates from 2000 to 2010 were unrelated to the parent company's existing business, which as I mentioned before is suffocating the small- and medium sized companies in these other markets.

Exhibit 2

**Nearly half of the business entries made by top Asian conglomerates from 2000 to 2010 were unrelated to the parent companies' existing business.**

Share of new businesses by type, for conglomerates<sup>1</sup> in China, India, and South Korea, 2000–10, %

100% = 274 business entries

22	<b>Category expansion into adjacent businesses:</b> <ul style="list-style-type: none"> <li>• Hanjin (Korean Air) expands into low-cost-carrier business</li> <li>• Tencent expands instant-message (IM) offering from personal to corporate service</li> </ul>
29	<b>Value-chain expansion:</b> Downstream or upstream expansion from existing business <ul style="list-style-type: none"> <li>• Hailiang (copper processing/manufacturing) extends into copper-trading business</li> <li>• Doosan (construction equipment manufacturer) expands into hydraulic equipment manufacturing (a core part of excavators)</li> </ul>
49	<b>Step out:</b> Totally new business, not linked to existing ones <ul style="list-style-type: none"> <li>• Hanwha (chemicals and leisure) expands into life-insurance business by acquiring KLI</li> <li>• Fosun (mining and steel) enters media industry</li> </ul>

<sup>1</sup>For the top 10–15 industrial conglomerates by 2011 revenues in each country (35 conglomerates in total); excludes state-owned enterprises and financial conglomerates.

Source: Companies' investor-relations materials, annual reports, and Web sites; Kisline; McKinsey analysis

## 2.4 Conglomerates and Management of Innovation

Going back to the actual topic of this thesis – Management of Innovation, the decision making process in these big companies is extremely slow, because of the hierarchical structure of the organization's. This in turn suffocates innovation, because for every new idea or concept one needs to go through multiple filters of management in order to even receive reasonable feedback.

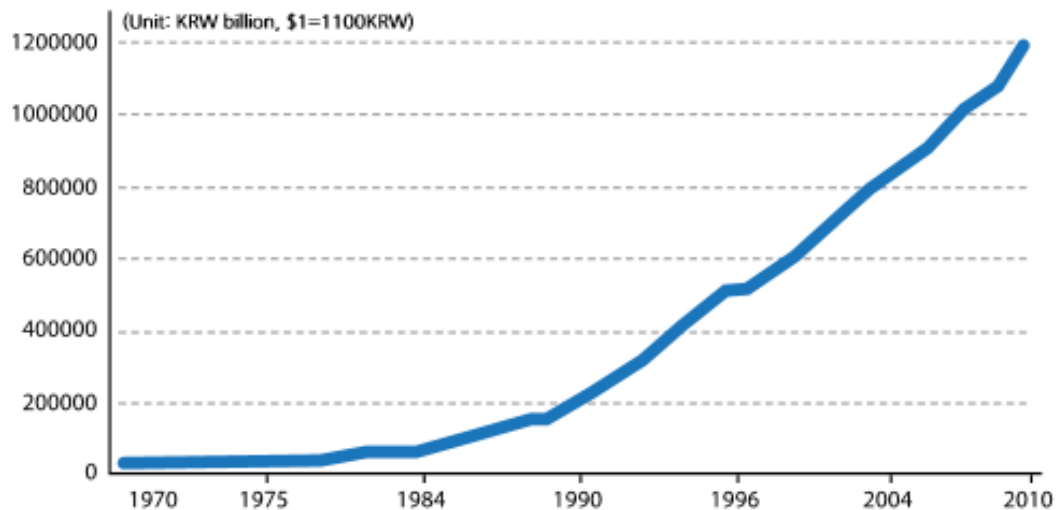
Peter Drucker argued in his book *Management of Innovation and Technology* that in order for innovation to thrive within a company – a flat organizational structure is necessary. For information to flow freely and make it possible to implement new ideas easily. If the organization structure is a traditional layered hierarchical one, then obviously all innovation gets filtered through the middle layers of management.

After having hands on experience of working in a Korean company, I can confidently state there is a very traditional organization structure in place, where harmony and

obedience are extremely appreciated, to an extent where most won't even question their superior's views or practices, even if they were mistaken or morally wrong. Leading to a corporate an incredible vertical hierarchical culture where people are not only scared of doing mistakes, but also scared to suggest development ideas. As goes the famous Japanese saying "a nail that sticks out will be hammered".

## 2.5 Circumstances of SME's in Korea

The chart illustrated below shows changes in Korea's nominal GDP from 1970 to 2010. Korea's nominal GDP was \$ 2BN in 1970. By 2010, it had increased by more than 500 times to \$ 1.007 trillion.



Korea's miraculous and meteoric rise as an industrialized economy has been documented well in the west and is something that most people are familiar with, but how the status of an industrialized economy was achieved and specifically what kind of influences did it carry to the economy later on, not many know about.

Originally Korean government's reliance on the Korean large business groups – the Chaebol conglomerates in order to create a competitive advantage, through the economies of scope, lead to the neglect of small and medium-sized companies which undermines the whole Korean economy currently. As a result, patents from Korean institutions tend to be half the value of that of US institutions.

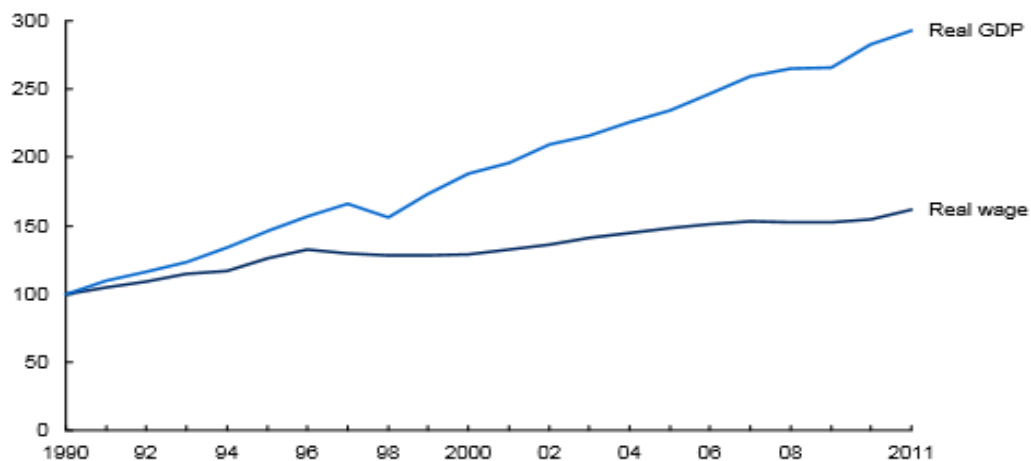
The prime cause for the financial straight of middle-income South Koreans is the state of the nation's SMEs. Because of the weakness in these kinds of companies, South Korea has become more vulnerable to effect of income declining from manufacturing employment.

According to McKinsey Global institute only 0.07 percent of SMEs in Korea grow to become large companies, please note that this is in a country that 90 percentage of employment is done by SMEs. What this means is that there is not only a lack of entrepreneurial culture, but also it represents the significant challenges that small companies face in Korea.

For example the greatest pride of Korea are the IT services, but interestingly enough most of them are purchased by large corporations from " captive " supplier companies in their groups. Not to mention the fact that SME's lack the capital to fund R&D investments that would lead to further development of innovations that would make them more competitive and allow them to expand to foreign markets. And to add the cream on top of the cake – SME's have had a difficult time in competing for the most high quality talent, because they can't offer the same salaries or career growth potential that big companies can.

#### South Korean wage growth has not kept up with GDP growth

Real GDP and real average wage  
Index: 100 = 1990



SOURCE: OECD; McKinsey Global Institute analysis

In South Korea there are a few standout service industries, most notably in air transport, engineering and construction that can compete globally and provide high-value services

and through this create high-paying jobs. However most of these service sectors remain focused in low value-added industries, specifically one-person establishments.

## 2.6 South-Korea, the most innovative economy in the world

According to Bloomberg, South-Korea has been deemed the most innovative economy in the world, although it was also noted by Bloomberg that: "Emphasis on wages being determined by tenure and seniority, together with a lack of pension mobility, means that there's not that much inter-firm or inter-sectoral movement of people", in South Korea the common consensus is that this hurts the country in the innovative area.

Another important point raised by Marcus Noland, director of studies at the Washington-based Peterson Institute for International economics, was that in Silicon Valley people with fresh ideas create start-up businesses which in turn add to the US economy, while in South Korea the pitches stay too close to home – "If you are a scientist or engineer at Samsung Electronics, and you come up with some brilliant new idea, you don't quit and start pitching your ideas to venture capitalist and set up your own firm – you go to management within Samsung".

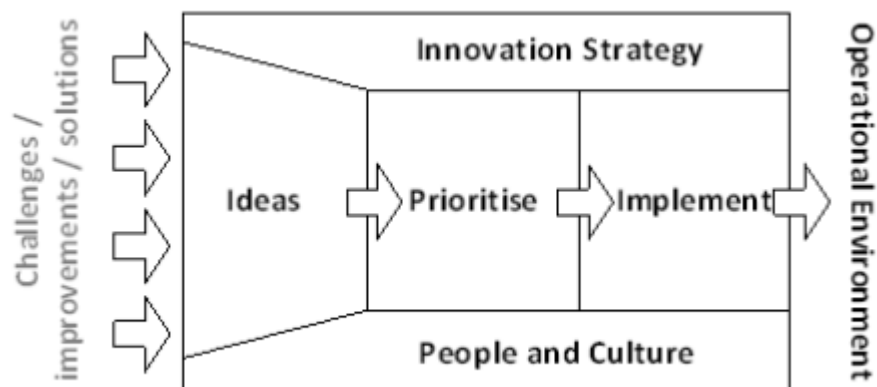
What this essentially means is that all innovation is suffocating within the big companies and even though South-Korea is considered the most innovative economy in the world, the innovation that exists is being either suffocated within the big corporations due to the layers of hierarchy that the idea needs to travel in order to make a decision maker or lacks the necessary research, resources and environment to flourish.

## 3 Innovation Process theory

### 3.1 Innovation framework

A successful innovation process has high performance requirements in many different disciplines.

Goffin and Mitchell (2005) identified five key areas of innovation management.



Top management is responsible for setting a clear vision and mission, focusing on a few key areas. The strategy needs to promote and encourage innovative culture. Therefore the top management needs to be clear with communicating the corporate vision alongside the role of innovation in the company. (Goffin and Michel, 2005)

In order to create an organizational culture that supports and facilitates creativity, the managers need to encourage it both on a team level and individual level. Barton (1999) states that successful new ideas are more successfully communicated in an integrative organization rather than in a matrix structure, empowering people at a lower hierarchical level of the organization is vital, so that even the lowest level employee has the freedom to explore new ideas and concepts.

As for projects, it is highly important that an efficient and effective process is established for choosing the best ideas when developing new products. Managers need to make sure that the project processes are matching with the company's innovation strategy. In addition fast development times, fast feedback times and making the process of developing new products as efficient and quick as possible are a necessity.

Lastly, but most importantly it is important to make a company culture where everyone is an innovator. A leaner, flatter and much more flexible organization structure needs to be in place to encourage and facilitate innovation and creativity.

### 3.2 The 70/20/10 model

One of the new concepts to increase innovation within a company is the 70/20/10 model, which was articulated by Eric Schmidt as the CEO in Google first in 2005.

Simply put the 70/20/10 model means 70% of time should be allocated to core business tasks, 20% to projects related to core business and 10% to projects unrelated to core projects. Whether this systemized way of innovation really works is a matter that can be debated, but it is definitely clear that it is a step forward towards a more systemized innovation process.

In addition, Google offers generous rewards and awards for implementing innovative ideas, most employees perceive such systems as perks, but for the company these seemingly insignificant ideas are the seeds for its future. Especially because this system ensures that entrepreneurial employees implement their innovative ideas within the company, rather than leaving the company and creating a competing new venture.

There is an estimate that 50 percent of Google's new products are generated through the free time that the employees are granted. As the company grew bigger the rift between the top executives in Google and the employees needed to be erased. In order to easily manage the flow of new ideas and projects, the company instituted a schedule of meetings between employees and the company's founders alongside the chief executives, where the employees can pitch their new ideas and projects directly to the top executives.

What separates Google and Apple from the other companies in the world, and also what makes them the cream of the crop is an issue that many companies around the globe are trying to figure out. Unfortunately in this case most of them end up just being the laggards that follow behind the trends created by these companies.

Innovation is something that stems from within the company, and the shape of the innovation for each individual company is different, that is why creating an environment and managing innovation is so valuable and important, there is no one-size that fits all.

A good example of this particular model would be Nike. One of Nike's most popular products – Air max, started out as a "side project" sitting on an employee's desk, the design caught the CEO's eye and now it is a billion-dollar line for Nike.



### 3.3 Purposeful Innovation

Peter Drucker in his book *Innovation and Entrepreneurship* speaks of a concept for managing innovation called "Purposeful Innovation".

According to Drucker Innovation is a specific instrument of entrepreneurship, simply put it is the act endows resources with a new capacity to create wealth. Innovation does create resources, if an object has no use – it can't be defined as a resource. Therefore all mineral will be just rocks, until that is man finds something in nature and endows it with an economic value. (Drucker, P., 1993)

Funnily enough this is the truth even in the economy, there is no greater resource than man-made "purchasing power", but it didn't exist before man defined it. Simply put, whatever changes the wealth-producing potential of already existing resources constitutes innovation.

Management also knows as "useful knowledge" that enables man to render productive people of different skills and knowledge in to an organization is also an innovation of this century.

Although a theory of innovation is not something we are able to develop yet, it is possible to know when, where and how one seeks systematically for innovation opportunities. It is after all change that provides an opportunity for new and different possibilities. Therefore systematic innovation is a purposeful and organized process of searching for those changes and when purposefully analysing those changes, it is possible that they may turn into economic or social innovations. (Drucker, P., 1993)

### 3.4 Social Innovation

Jim Collins in his article – "The ultimate creation", in 2001 for the Inc. magazine argues that if we go back in history and consider what was Henry Ford's greatest innovation. Many would say it was the Model T, but in reality it was not the Model T, rather it was the large-scale application of a new method of management to the automobile industry – the assembly line.

According to Jim Collins, if you want to create an organization that is great, it is important not to focus on developing great products nor being the great innovator. The important thing is to spend your time being a social innovator, designing an environment that will become the seedbed for many great innovations to come. Leaders such as William McKnight of 3M or George Merck of Merck never created a single product innovation themselves, but rather they created an environment where the employees had the opportunity to be creative and innovative. In 3Mers employees get 15 percent free time to tinker around with whatever ideas they wish to.

The most important thing as a leader is to be innovative in the way you lead. Leading in innovation, does not equal to leading the creation of innovations or being the genius that creates the innovation's yourself. Look at Apple as an example, when Steve Jobs was replaced in the early 1990's the company had an extremely hard-time in innovating before Jobs made his return again. (Collins, J., 2001)

#### **4 Role of leadership in Innovation**

It is important to consider the role of leadership in innovation, because leaders after all are responsible for the corporate environment and what kind of moves or decisions the company makes, as the saying goes if the head is sick the whole body is sick.

As I've discussed before in regards to the corporate culture in Korea, it can be said that because of the family-owned big companies – the companies have become dinosaurs that move extremely slowly and have an extremely stifling environment for innovation due to the hierarchical layers that exist within an organization of such kind.

Too many leaders say they want innovation, but behave in ways that stifle it.

Behind the beautiful virtues of innovation are painful realities. First of all innovation most of the time is a real headache, nuisance and the worst of all a risk for leaders. Secondly Innovation is not something that can be predicted or controlled, it is a messy, chaotic process full of unexpected dangers, and therefore it is obvious for leaders to praise it in theory, but not support it in practice.

#### 4.1 Examples of Innovation stifling leadership and how to avoid it

Let's put pharmaceutical companies as an example – most pharmaceutical companies have a system where they look for a new drug, get it approved and roll it out to the market. In this kind of organization, innovation is done only by one specific department rather than a wider search for new ideas or concepts that may appear from any area, level or geography and that might breach the existing norms or challenge frameworks.

Another example worth mentioning would be Barnes & Noble – the traditional offline bookstore. After Amazon.com came to the market with its online bookstores, which can deliver any title from any author to almost anywhere around the world and straight to one's doorstep, Barnes & Noble was clearly in trouble at that point.

Now at this point it is important to consider the difficulty Barnes & Noble had at opening their own on-line bookstore, after all the Barnes & Noble was built by Leonard Riggio – the entrepreneur, to be the world's largest bookstore chain, filled with many innovations of that time and that changed the industry dynamics. Funnily this same entrepreneur failed to see the potential of the World Wide Web until Barnes & Noble was pushed into it, because of the threat from Amazon.com. Needless to say the company's internet effort was quite fruitless – it operated defensively rather than bringing new approaches.

In order for the culture inside the company to support innovation, the culture must encourage fast approvals, open communication, cooperation instead of combat across internal units, tolerance for uncertainty, and faith in people to try new things.

It is not the layout of the office that defines innovations – it is the mental layout – whether the person's mind is engaged in a constant search for fresh ideas and it is the job of leaders to remove the action-stoppers, eliminate the innovation-stifler's and open minds to wide-scale thinking, it is important to create an environment for challenging the status quo.

#### 4.2 Leadership in Korea

South Korea has a collectivism dimension influenced more by Confucianism than any other Asian countries, which leads to the fact that leaders have been seen differently throughout the history of the country. Confucianism stresses obedience, loyalty and

harmony, in turn the leader takes a holistic interest in the employees and this means that the involvement in private-life is much greater compared to Anglo-Saxon countries, where work and private-life are strictly separated.

This was understandable in the past, because the economy was in desperate need of revitalization, which occurred, but now this same old-fashioned hierarchical and vertical leadership style is the very reason for the economy suffering.

The current situation in Korea resembles the one Japan was in 20 years ago. Japan is famous for having an even more strictly hierarchical society than Korea. But in Korea's case the current situation has yet to see any hope, the old fashioned working culture is destroying any prospect of young people's willingness to start working.

## **5 Successful Innovations in Korea, case examples**

### **5.1 Korean SME Innovation circumstances**

In order to illustrate, that the future is not as bleak as it seems, I will illustrate a few interesting example cases of successful innovations and their management in South-Korean companies.

It is important to note, that the biggest problem for Korean SME's is that they do not have the resources or the connections to target overseas markets, and because of this most of the start-ups that are created target the domestic market, which not only limits the scale of their business, but also ensures that they will not never gain the attention of any overseas investors.

As a side note I would like to mention that from my own experience working in a Korean SME company, I have noticed that most if not all SME's can't survive without the conglomerate's help at this current moment. Most of the biggest business and entering new markets is done through the conglomerates, because they have already established distribution channels in South-East Asian and the Korean markets.

## 5.2 Hyundai Card

In 2001, Hyundai Card was established as a subsidiary of the Conglomerate group – Hyundai. Created as a credit-card company Hyundai Card struggled for the first years of its existence, it was only after Ted Chung became the CEO and his unusual actions that made Hyundai Card become one of the most innovative and interesting cases in Korea. In Hyundai Card's case – "science in a Tiffany Box" was created. Investing highly in the design of the card was what eventually made the card successful and created a competitive advantage for it.

In the time of crisis Chung took matters in his own hands and started from boosting employee salaries and increasing spending, including a new \$50 million advertising campaign. Since then Chung has held design in high value in order to keep the brand distinctive, ranging from sponsoring tourist visits to his ultramodern headquarters and the new, automated credit-card factory and also developing a unique font for the company.

According to an article published in McKinsey by Rik Kirkland in July 2015, Chung thought that challenging the status quo is the surest way to stay on top of the food-chain. In this case the innovating leader was somebody who had a lot of international experience and exposure making it easy for him to think outside the box and as seen from the results the effect of such a leader is quite impactful.

## 5.3 Olaworks

Olaworks was a Korean image detection and recognition technological company that first received a \$2 million investment from Intel and eventually had a successful M&A exit in 2011, after Intel acquired Olawork's partner company Silicon Hive.

Olaworks targeted a technology expected to prove valuable over 3-5 year horizon, and secured the necessary venture capital funding to focus solely on technology development. In addition they managed to attract overseas investors and stakeholders with global networks that eventually led them to new places. (Choi, W., 2015)

The interesting factor in this acquisition is that Intel until 2011 had never acquired a venture, albeit they had invested in nearly 30 ventures up to that point.

#### 5.4 Importance of an Leader in innovation management

It is evident from the examples that I mentioned above, that a leader's influence is huge in Management of Innovation within a company, doesn't matter whether it is a small or a big company – a strong leader with exposure and experience in the international market is a necessary key factor in paving the path of success for the two example companies.

In the case of Hyundai Card, the corporate culture is one where innovation and creativity are encouraged by the company, and this is not just empty words, but rather the innovation is evident in the company's rapid growth. Besides this the company has invested in to mobile services that allow card holders to check account details, benefits among other things. (Kirkland,R., 2015)

The key point was that the leader was focused on creating more than a company that strives for profits or a simple product, it was more than a simple credit-card. Looking at other successful companies such as Starbucks, Louis Vuitton or iPod, whose products were more than just simply coffee, luxury products or a music player. The necessary thing was an image that would accurately represent the company.

One of the problems that was evident in the Korean SME ecosystem is the lack of experienced middle-managers that have international exposure, and the biggest problem is that most, if not all SME's lack is the financial funds to attract talented middle-managers with the needed experience.

As for Olaworks it was founded by technology specialists from academia and industry, with the leaders of the company having a strong grasp of latest technology trends, had the ability and connections to recruit graduate students from KAIST (The most prestigious tech University in Korea, especially famous for robotics) to join their founding team. Besides the idea, the leader also had a clear vision of what was required to succeed and only thing necessary in order to manage the innovation was to find the necessary support cast and create an environment where they can thrive.

(Choi, W., 2015)

## 6 Innovation pipeline

### 6.1 What is the innovation pipeline?

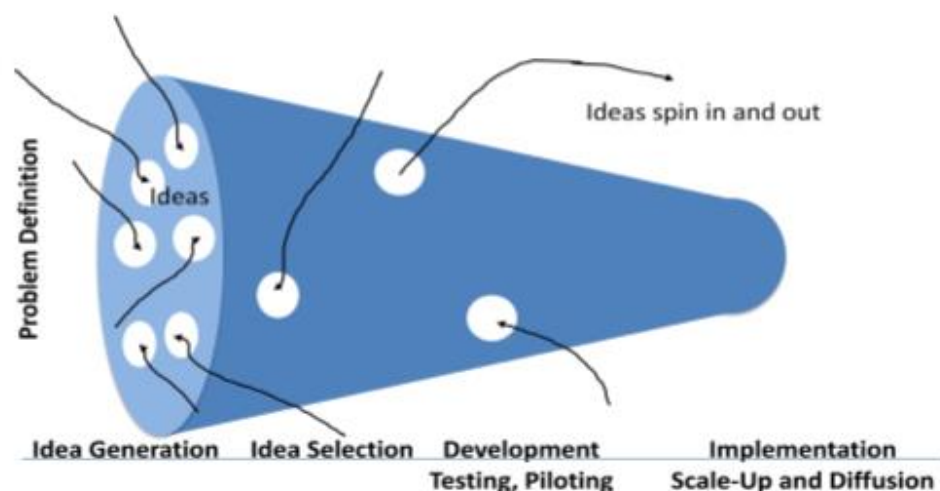
Innovation is by no means and linear process, but it is typically visualized as a pipeline that includes inputs, processes and outputs. The term "innovation pipeline management" is an umbrella term that is used to describe the process used to analyse and manage early-stage innovation ideas. (Science & Technology Institute, 2012.)

Generally innovation pipeline management has been described as an arrangement of 5 different categories:

- Visioning and problems definition
- Idea generation
- Idea selection
- Developing, testing and prototyping
- Implementation, scale-up and diffusion.

Each of these processes have different stages, and they are not always distinct or separate, but they should be considered as separate and it is possible that different skills and methodologies will be needed at each stage.

The later stages need higher focus on project management skills, whereas the earlier phases require higher focus in managing how the new ideas are generated and converted. It is important to keep in mind that implementing these phases depends on the organizational goals and culture. (Science & Technology Institute, 2012.)



## 6.2 Leading practices by Innovation Stage

### 6.2.1 Visioning and problem definition

The process of innovation starts with understanding and visioning the problem, and this is also the point where the expectations and goals of the innovation process will be made. In regards to defining the problem, there are many options to refer to, for example the focus can be challenge centric, user centric (Apple) or technology centric. An important part of understanding the problem is to not be afraid of disruptive ideas that may create new insights.

Apple is a great example of user centric problem solving, they became a leader in innovation by changing the way that people interact with the technologies used by them. Through this Apple has created new markets in communications, music and entertainment fields – something that nobody else has managed to do before.

### 6.2.2 Ideation generation

In the ideation stage it is important to establish a corporate culture that allows grassroots idea generation for employees that are not in decision making positions to create a culture of innovative thinking and entrepreneurship within the organization.

Ideas can come from both inside and outside the organizational, but big organizational changes should be suggested by an external source that can bring a fresh perspective on market or opportunities.

Proctor and Gamble uses the Connect and Develop program network that it created as a source of external sources of new ideas alongside an internal analysis of customer needs and adjacency maps.

### 6.2.3 Idea selection

After generation enough potential ideas, the next step is to down-select the ideas to a smaller pool that leaves only the most feasible ones. The idea selection phase is largely about managing uncertainty. Idea selection process is consistent of a rigorous filtering process where the concept is transformed into a feasible strategy.



Involvement of senior management is highly recommended. It makes the idea selection process much more painless and aids the development of it, because more than often the senior management can see the bigger picture – new concepts that the idea might be applied to.

#### 6.2.4 Development, Testing and Prototyping

As it has become evident with the latest technology and through that mobile application boom, testing unfinished beta-versions of products on a small group of carefully chosen users has become the fastest way to prototype faster with much less waste. The early-adopter community's feedback has helped launch many prototypes from a pilot to an implementation and scale-up phase. (Science & Technology Institute, 2012.)

When making many small investments, the concept of failing fast and giving up if the project doesn't meet the set standards.

#### 6.2.5 Implementation, Scale-up and Diffusion

According to Science & Technology Institute, 2012 this is the last stage of the process where the ideas are put into practice, essentially keeping the innovation alive and adapting it when needed as the process goes on.

After testing on a small test audience in order to see the customer reaction, the full-resources of the organization – managerial, financial and commercial are employed in order to make the product scale-up and commercialize.

In private organizations after successfully clearing this stage, the product goes on to the product pipeline where manufacturing, marketing and other commercialization methods are applied, alongside rolling out the product.

## **7 The way forward – no hope for Korea?**

### **7.1 Current situation**

It is hard to see any light at the end of the tunnel in the current situation, Korea seems to be in a bubble – away from the rest of the world, making it much longer and harder to develop towards a more innovative and fast-paced corporate world. While the rest of the developed world is operating with the concept of having a lean, fast moving organization is the only way to survive – Korea has not reached that state yet.

Although it can be argued that the conglomerates have some innovation left in them, as per my example of Hyundai Card. The real problem is with the fact that these big companies are in way too many industries at the same time, and as mentioned before they suffer losses in these side businesses, while retaining the market leadership position. Essentially destroying the market for SME companies, and through this also hurting the economy heavily.

Currently in most companies many top executives pay lip service to innovation and doing nothing about it is the common way. This is a direct failure of the executives in modelling innovation – encouraging behaviour, such as risk taking and openness to new ideas. Short-term rewards and maintaining a fear of failure will never move an organization forward, rather they will end up being the reason to the organization's downfall.

The Korean government has been actively trying to invest more money into the SME sized venture sector, but up to this point the change has been slow and tedious. In McKinsey's article – The virtuous circle: Putting Korea's Startup Ecosystem on a Path to Sustainable Long-run growth, published in March 2015, " Korea's traditional growth model, based on labour and capital-intensive manufacturing by conglomerates, is approaching its limits. For future growth, we need to establish an innovation-driven model led by small companies. " Although this is the case, unfortunately there is just not enough foreign capital, talent or resources in the venture company scene for it to be successful enough to drive the growth of the economy.

## 7.2 How to proceed?

In order for Korea's innovative capabilities to flourish there is a big list of things that are needed, but the main factor that should be considered by most SME companies is that from the moment they start the company it should focus not on the domestic market, but rather on the global market. Making the target audience much wider, also in the process attracting foreign investors, that can offer the necessary connections, education and experience related to international business.

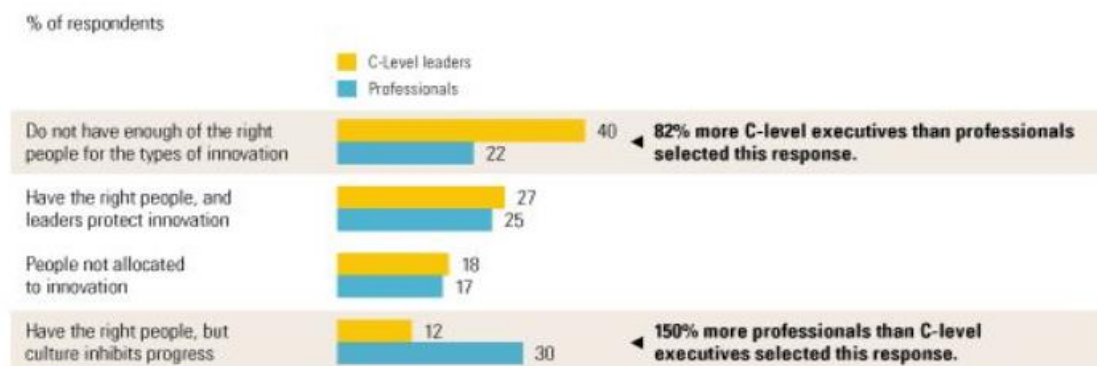
As for already existing companies, there are things managers and executives can do to make the organization's innovation culture bloom.

As key points I would like to mention:

- Defining the kind of innovation necessary for growth and help in meeting strategic objectives
- Adding innovation as a formal agenda to regular leadership meetings
- Setting performance metrics and targets for innovation
- Encouraging innovation throughout the organization (for example the 70/20/10 model)
- Giving employee's an opportunity to pitch and receive feedback from decision makers directly.
- Making innovation as one of the core values of the company

According to a research done by McKinsey on what exhibits innovation, most of the Senior level executives think that not having enough of the right people for the types of innovation is the biggest problem, that prevents them from exhibiting innovating.

### What inhibits innovation



Source: 2007 McKinsey survey on innovation

## 8 Conclusion

Korea can be considered a highly developed country because of many reasons – technological progress, GDP or by the level of educated people in the country among other things. But if one look's more carefully beyond the statistics and the newspaper propaganda headlines, Korea is still not a match to its developed economy predecessors.

This fact becomes especially evident when looking at the corporate culture in the country. In the golden age of entrepreneurship where "fail fast and often" has become a mantra of the successful companies, Korea towers alone as one of the last dinosaurs representing the traditional hierarchical management model, where all innovative ideas that carry even a small trace of risk or don't match with the main business, get filtered through the layers of the big conglomerate corporations, that are family owned. Which essentially means that the CEO will not get replaced, no matter how bad of a job he does, meaning that it is essentially a tyranny.

Although there are some glimmers of hope in the Korean company – LG focused on thoroughly localizing its products in India, allowing access to its products not only to consumers with high income but also to the lower income ones. Promoting the idea to produce locally and to customize the products to suit the needs of the market worked miracles, also making efforts to build an distribution system in rural areas so that it could sell products in the countryside made LG localization strategy a huge success in the Indian market.

According to a study done by Gregory, Harvie and Lee called "Korean SME's in the 21<sup>st</sup> Century: Strategies, Constraints, and Performance in a Global Economy", it is mentioned that Korean SME's have shown an remarkable resiliency and recovery after the IMF crisis in 1997, and that further integration's in the Asian region will present SME companies many business opportunities and through that the Korean economy will begin growth again.

In the future Korea will become a country, that will have the SME's driving the economy, but in order for Korea to reach that state many changes are necessary. Specifically speaking the corporate environment and leadership styles are the two key points that

need to develop in order for Korean companies to be able to compete with their Western counterparts.

Does this mean then, that Korean culture needs to follow western innovation culture and management concepts?

The answer is not as simple as a yes or no answer. Korea has been learning and following the western methods, specifically speaking the American ones for some time now, but the problem is that they only take and use the things that don't create any disruption within their corporate culture.

Personally I think that innovation needs to be systemized, controlled and facilitated by management in order for it to have effect. The aforementioned social innovation will play a key role in changing this culture, there are already a few that practice it, but the quantity of these individuals needs to increase. Because the ones currently practicing it are those that had the international exposure and experience for a longer period of time making them more suspect to the thinking and ideas currently circulating in the west.

Most importantly in order for Korean economy, rather society to change – the people need to act towards a change, without any action there will be no change, the change is happening already, but it needs more following in order for it to truly explode.

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